

Town of Lunenburg



Financial Forecast Presentation

January 23, 2020

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What is a Financial Forecast?

- A financial planning and policymaking tool that projects revenues and expenditures conservatively over a multi-year period
- It is a “living document” that is used to evaluate the budget over a five year period and update forecast with changing financial data

Why Forecast?

- Provides a starting point from which a balanced budget is developed
- Projects likely outcomes based on historical practices
- Allows to look at “what if” scenarios
- Indicates future budget gaps
- Projects revenues and expenditures conservatively over a five year period
- Required by Town’s Charter, Section 4-2 (s)
- Bond Rating Agencies look favorably upon communities that annually prepare a forecast document.

Forecasting v. Budgeting

- Forecast provides a long-term and “big picture” financial perspective on service delivery using both known information & assumptions on future revenues and expenditures.
- The Budget is a specific plan detailing service delivery in the coming fiscal year.

Goals of Forecasting

- Gain a long-term perspective/ basis for planning
- Determine whether fiscal problems are on the horizon
- Time to plan for change, favorable or unfavorable
- Reinforce the need for long-range considerations during the annual budget process

Forecasting- Key Concepts

- Uses reasonable, conservative assumptions that must be evaluated and updated each year
- Represents the community's projected financial position
- Is a tool to evaluate the impact of various budgeting decisions and policy choices over time
- Is a living document that can be adjusted
- Once you develop baseline projections, the underlying assumptions can be adjusted to address issues
- A forecasted shortfall needs to be examined and does imply that some action will be taken, or at least planned, to avoid the financing problem
 - Action to balance the budget
 - Raise revenue; Reduce expenditures

Forecasting Tools & Guides

- MGL, Town Bylaws, other Generally Accepted Standards
- Financial Policies
- Historical Trend Analysis
- Debt Service Schedules
- Union and Employment Contracts
- Assumptions

Financial Policies

- Financial Management Policies & Objectives include:
 - Exempt and Non-Exempt Borrowing & Debt Burden:
 - Reg. Debt no more than 4% of regular tax levy
 - Total of annual debt for exempt debt no more than 11% of tax levy
 - Net Debt Service of Exempt and Non-Exempt no more than 14% of the tax levy
 - Use of Free Cash: 1) Reg. Stab. Account (above), 2) Fund non-reoccurring expenditures (Capital), 3) OPEB 4) Special Purpose Stabilization Fund
 - Stabilization Fund Account: The deposit from Free Cash will be made in order to maintain a min. balance of 5% of the current FY Omnibus Budget
 - Capital Projects/ Purchases: Projects/Assets cost \$10,000 or more and useful life of 3+ yrs
 - OPEB Funding: 10% of certified Free Cash from previous fiscal year

Trend Analysis & Contractual Obligations

- Look at historical data to see what type of trends in revenues have occurred over periods of time. Use of historical data can assist in predicting future trends
- Union Contracts, Salary Administration Plan increases for non-union employees accepted by town meeting vote, employment contracts
- Other known contractual increases (i.e. audits and regional assessing services)
- Forecast uses only the existing debt service schedules

Assumptions for Financial Forecast- FY2021 - FY2025

Use data obtained from all sources mentioned to make assumptions about:

- Revenues
 - Property Taxes, State Aid, Estimated Local Receipts, Other Available Funds (Stabilization, Free Cash)
- Expenditures
 - All operational costs to provide equivalent staffing level as FY20 and related expenses for existing programs. The FY2021-FY2025 Financial Forecast includes the long term staffing plan for Police and Fire and provides a scenario for staffing increases for the Lunenburg Public Schools.
 - Debt Service
 - Assessments for Regional Services
 - Pension costs, Health/Life Insurance, General Insurance, OPEB
 - Reserve Fund, Stabilization
 - State Assessments

Revenues

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Revenues: Known Figures and Assumptions

- **Property Taxes:** Forecast for FY21 increases property taxes by 2.5% (per Proposition 2 ½) and uses an estimate of \$350,000 for New Growth; Forecast for FY22-FY25 increases property taxes by 2.5% and uses an estimate of \$300,000 for New Growth.
- **Debt Exclusions:** Debt Exclusions are added to the Tax Levy Limit and are known figures per the debt schedule as of this point in time. Forecast for FY21-FY25 increases or decreases the debt exclusion amounts each year to account for exempt borrowing.
- **State Aid:** Forecast for FY21 level funds State Aid from FY20, FY22-FY25 assumes a 2.5% increase from previous fiscal year.

Revenues: Known Figures and Assumptions

- **Local Receipts:** Forecast assumes a 2.5% increase for MV Excise and a 2% increase in all other local receipt categories for all five years.
- **Other Available Funds:** Forecast for FY21 uses \$889,133 of our certified free cash. \$679,133 of that amount towards the FY21 Capital Plan, \$100,000 into the Stabilization Account, and \$110,00 into the OPEB Trust Fund. The Forecast for FY22-FY25 does not predict the use of any Free Cash and other available funds are consistently used across FY21-FY25. Other available funds include funds from the Artificial Turf Revolving Fund to pay for turf field debt and MSBA funds reserved for debt service totaling approx. \$535,000 (drops off in FY24).
- Forecast for all five years assumes no draw on stabilization and assumes no new borrowing.

Revenues-Property Taxes

Town of Lunenburg

Revenue Projections

	FY2019 Budget	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected
PROPERTY TAX LEVY							
Prior Year Tax Levy Limit	23,087,668	24,137,396	25,107,062	26,084,739	27,036,857	28,012,778	29,013,097
Amended Prior Growth							
2.5% Increase	577,192	603,435	627,677	652,118	675,921	700,319	725,327
Certified New Growth	472,536	366,231	350,000	300,000	300,000	300,000	300,000
Override							
TAX LEVY LIMIT TOTAL	24,137,396	25,107,062	26,084,739	27,036,857	28,012,778	29,013,097	30,038,424
Debt Exclusion(s)	2,857,515	2,947,348	2,716,968	2,693,719	2,696,089	2,336,360	2,177,555
Capital Expenditure Exclusion(s)							
Stabilization Fund Override	-	-	-	-			
Other Adjustment							
Water/Sewer							
MAXIMUM ALLOWABLE LEVY ①	26,994,911	28,054,410	28,801,707	29,730,576	30,708,867	31,349,457	32,215,979
LESS Excess Tax Levy Capacity	53,706	3	-	-	-	-	-
TOTAL Tax Levy ②	26,941,205	28,054,407	28,801,707	29,730,576	30,708,867	31,349,457	32,215,979

Revenues-State Aid

Town of Lunenburg

Revenue Projections

	FY2019 Budget	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected
STATE AID CHERRY SHEET							
Chapter 70 Education Aid	7,538,072	7,771,740	7,771,740	7,966,034	8,165,184	8,369,314	8,578,547
Charter Tuition Reimbursement	17,860	36,345	36,345	37,254	38,185	39,140	40,118
Charter Facility Reimbursement			-	-	-	-	-
Smart Growth	29,195	35,372	35,372	36,256	37,163	38,092	39,044
School Lunch (offset)	-		-	-	-	-	-
School Choice Receiving Tuition (offset)	241,647	182,658	182,658	187,224	191,905	196,703	201,620
Unrestricted General Government Aid	1,093,406	1,122,928	1,122,928	1,151,001	1,179,776	1,209,271	1,239,502
Veterans Benefits	35,873	55,161	55,161	56,540	57,954	59,402	60,887
Exemptions VBS and Elderly	55,517	61,979	61,979	63,528	65,117	66,745	68,413
State Owned land	47,230	26,222	26,222	26,878	27,549	28,238	28,944
Police Career Incentive			-	-	-	-	-
Public Libraries (offset)	15,534	16,524	16,524	16,937	17,361	17,795	18,239
TOTAL Cherry Sheet ③	9,074,334	9,308,929	9,308,929	9,541,652	9,780,194	10,024,698	10,275,316

Revenues- Local Receipts

Town of Lunenburg

Revenue Projections

	FY2019 Budget	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected
ESTIMATED LOCAL RECEIPTS							
1. Motor Vehicle Excise	1,621,640	1,671,640	1,713,431	1,756,267	1,800,173	1,845,178	1,891,307
2a. Meals Excise	96,113	100,980	103,000	105,060	107,161	109,304	111,490
2b. Room Excise	-	-	-	-	-	-	-
2c. Other Excise	-	-	-	-	-	-	-
3. Penalties/Interest on Taxes and Excises	193,552	156,022	159,142	162,325	165,572	168,883	172,261
4. Payment In Lieu of Taxes	1,735	1,648	1,681	1,715	1,749	1,784	1,820
5. Charges for Services-Water	-	-	-	-	-	-	-
6. Charges for Services-Sewer	-	-	-	-	-	-	-
7. Charges for Services-Hospital	-	-	-	-	-	-	-
8. Charges for Services-Solid Waste Fees	-	-	-	-	-	-	-
9. Other Charges for Services	-	-	-	-	-	-	-
10. Fees	161,382	164,267	167,552	170,903	174,321	177,808	181,364
11. Rentals	-	-	-	-	-	-	-
12. Dept. Revenue-Schools	140,343	119,942	122,341	124,788	127,283	129,829	132,426
13. Dept. Revenue-Libraries	-	-	-	-	-	-	-
14. Dept. Revenue-Cemeteries	5,350	5,350	5,350	5,457	5,566	5,677	5,791
15. Dept. Revenue-Recreation	-	-	-	-	-	-	-
16. Other Departmental Revenue	243,953	276,947	282,486	288,136	293,898	299,776	305,772
17. Licenses/Permits	202,350	252,317	257,363	262,511	267,761	273,116	278,578
18. Special Assessments	15,162	14,031	14,312	14,598	14,890	15,188	15,491
19. Fines and Forfeits	29,716	27,213	27,757	28,312	28,879	29,456	30,045
20. Investment Income	61,701	62,935	64,194	65,478	66,787	68,123	69,485
21. Medicaid Reimbursement	-	-	-	-	-	-	-
22. Misc. Recurring	1,376	-	-	-	-	-	-
23. Misc. Non-Recurring	235,780	213,699	215,836	220,152	224,555	229,047	233,628
TOTAL Local Receipts	3,010,153	3,066,991	3,134,445	3,205,701	3,278,596	3,353,169	3,429,458

Revenues- Free Cash and Other Available Funds

Town of Lunenburg

Revenue Projections

	FY2019 Budget	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected
TOTAL MSBA REIMBURSEMENT	474,239	474,239	474,239	474,239	474,239		
AVAILABLE FUNDS/OTHER FINANCING							
Free Cash	602,736	1,298,232	889,133	-	-	-	-
Other Available Funds	167,417	282,710	107,285	104,859	102,397	99,290	45,401
TOTAL Available Funds	770,153	1,580,942	996,418	104,859	102,397	99,290	45,401

- Other Available Funds includes funds from the Artificial Turf Revolving fund to pay for the turf field and MSBA funds reserved for debt service
- Budgeted as needed to cover appropriate expenses
- Forecast does not project using Free Cash as a revenue source for FY22-FY25, does not use free cash for operating expenses.

Revenue Assumptions- Enterprise Funds

- Revenues from Enterprise Funds are segregated from the general fund. These funds are self-supporting
- Receipts = Projected Expenses plus indirect costs budgeted in the general fund
- Sewer, Water, Solid Waste, and Public Access
- Forecast includes indirect costs in revenue projections such as health insurance, retirement costs for enterprise employees, and associated enterprise debt payments.

Expenditures

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Expenditures

- Forecast uses moderately conservative approach
- Looks at actual expenditures from previous years for historical trends
- Uses the current budget year as the base
- Personnel costs: covers obligations in collective bargaining contracts, employment contracts, and approved wage and classification plans for non-union personnel. Projection uses 2% increase outside of known contractual obligations.
- Future contract settlements and compensation plan adjustments should be analyzed in separate worksheet to see the net effect using % increases
- Expenses: Look at annually, historical expenditures, forecast conservatively and maintain current programs

Expenditure Categories

- Personnel and expenses related to providing the same programs and staffing levels which includes contractual obligations with the exception of Police and Fire Staffing Plan
- Education costs
- Debt Service (General Fund, Enterprise Funds, Temp. Interest)
- Capital
- Group health/life insurance, retirement, general insurance
- Amounts to be raised: Tax Title, Overlay, Cherry Sheet Offsets, Prior year deficits, snow and ice deficits, court judgments
- State Assessments
- Reserve Fund, Special Articles, transfers to stabilization, special purpose stabilization, OPEB

Expenditure Assumptions

- Forecast document:
 - Adheres to adopted financial policies
 - Make deposit to Stabilization Fund to maintain required balance
 - Make deposit into OPEB Trust Fund per policy
- Forecast for FY21 reflects target budget figures that departments were asked to meet when developing their budget
- State Assessments and Cherry Sheet Offsets level funded for FY21 and assumes 2.5% increase for FY22-25
- Assumes Tax Title Cost \$24,000 for FY21 and increases by 2% in FY22-FY25.
- Level funds the Overlay Account in FY21 and increases the Overlay Account by \$10K each subsequent year of the forecast based on historical data
- Assumes level funding the Reserve Account

Expenditure Assumptions Cont.

- Forecast for FY21 provides for contractual increases for existing staff with the exception of added staff for Police and Fire; certain known costs (i.e. Audit, GASB45), provides for 6.5% increase in Health Insurance costs, 10% increase in Retirement Assessment, level funds Other Insurance costs, provides for a 2.5% increase in Schools; increases the Pavement Management Plan by \$50K; provides for \$100K for Stormwater; level funds the Reserve Accounts; level funds departmental expense accounts; assumes no new debt (debt schedule includes Ladder Truck and Saliba property); provides for \$650K in tax revenues for Capital and for Capital, OPEB, and regular Stabilization account. Currently does not deposit funds into Special Purpose Fund.

Expenditure Assumptions Cont.

- Forecast for FY22-FY25 provides for contractual increases for existing staff with the exception of added staff for Police and Fire; projects any unknown salaries at 2% and expenses at 2%; provides for 8% increase in Health Insurance costs, 10% increase in Retirement Assessment, 2% increase in other Insurance costs, provides for a 2.5% increase in Schools; increases the Pavement Management Plan by \$50K each year; provides for \$100K for Stormwater each year; assumes no new debt; identifies \$100K for Stabilization, \$200K for Special Purpose Stabilization \$100K into OPEB, and \$650K for Capital each year.

Expenditures

	FY2019	FY2020	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>
Expenditures							
General Government	1,426,619	1,536,856	1,573,004	1,619,711	1,668,824	1,719,749	1,772,564
Public Safety	3,249,106	3,463,663	3,700,628	3,926,208	4,151,608	4,296,914	4,462,227
Education	21,031,807	21,597,536	22,130,356	22,683,172	23,249,810	23,830,613	24,425,936
Public Works	1,674,835	1,844,247	1,884,181	1,973,569	2,065,968	2,160,554	2,257,712
Facilities & Buildings	672,445	708,039	708,579	719,773	732,132	744,870	757,995
Recycling Program	156,360	218,450	218,450	222,819	227,275	231,821	236,457
Health & Sanitation	73,839	77,317	77,072	79,585	82,197	84,915	87,741
Library	412,063	419,190	415,947	431,599	447,916	464,930	482,672
Public Assistance	245,494	253,943	260,588	265,197	269,989	274,973	280,156
Debt Service	4,758,053	4,681,672	4,590,491	4,451,981	4,375,570	3,373,473	2,799,896
General Government Unclassified	3,111,981	3,190,137	3,379,369	3,647,744	3,940,983	4,230,770	4,545,350
Central Purchasing	55,303	60,303	60,303	61,509	62,739	63,994	65,274
Other Amounts Raised	1,671,859	1,752,532	1,887,970	2,052,409	2,231,879	2,427,874	2,642,037
State Assessments	1,044,696	1,082,507	1,082,507	1,109,570	1,137,309	1,165,742	1,194,885
Free Cash/Other Financing Uses	1,569,652	2,488,478	1,539,133	1,052,000	1,054,040	1,056,121	1,058,243
Total Expenditures	\$ 41,154,110	\$ 43,374,870	\$ 43,508,577	\$ 44,296,845	\$ 45,698,240	\$ 46,127,312	\$ 47,069,147

Expenditures-Debt

Town of Lunenburg

Debt

	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected
Total General Fund Regular Debt	\$ 380,842.57	\$ 533,903.83	\$ 517,394.84	\$ 456,802.33	\$ 330,170.11	\$ 310,538.63
Total General Fund Excludable Debt	\$ 3,482,664.84	\$ 3,252,019.64	\$ 3,228,498.15	\$ 3,230,589.79	\$ 2,396,328.76	\$ 2,177,558.76
Total General Fund Short-term Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Sewer Debt	\$ 812,828.95	\$ 800,201.18	\$ 702,691.70	\$ 685,558.29	\$ 645,143.85	\$ 310,433.44
Grand Total Debt Service	\$ 4,676,336.36	\$ 4,586,124.65	\$ 4,448,584.69	\$ 4,372,950.41	\$ 3,371,642.72	\$ 2,798,530.83
Premiums/MSBA Reimb Excludable Debt	\$ 535,316.88	\$ 535,051.19	\$ 534,779.55	\$ 534,501.26	\$ 59,968.64	\$ 4.19
Net Excludable Debt - Tax Levy - DE1	\$ 2,947,347.96	\$ 2,716,968.45	\$ 2,693,718.60	\$ 2,696,088.53	\$ 2,336,360.12	\$ 2,177,554.57
Regular Debt Administrative Fees	\$ 262.78	\$ 237.40	\$ 211.51	\$ 185.10	\$ 158.15	\$ 130.66
Sewer Debt Administrative Fees	\$ 5,072.45	\$ 4,128.72	\$ 3,184.46	\$ 2,434.03	\$ 1,672.43	\$ 1,234.72
Transfer from Sewer Enterprise - Sewer Debt Service	\$ 817,901.40	\$ 804,329.90	\$ 705,876.16	\$ 687,992.32	\$ 646,816.28	\$ 311,668.16
Transfer from Septic Receipts Reserved						
Meadow Woods Water Betterment Revenue	\$ 56,837.50	\$ 55,837.50	\$ 54,837.50	\$ 58,837.50	\$ 57,587.50	\$ 56,337.50
Transfer from Artificial Turf Revolving	\$ 43,500.00	\$ 46,473.00	\$ 44,318.19	\$ 42,134.74	\$ 39,321.78	\$ 41,478.43
Net Regular Debt Service	\$ 280,767.85	\$ 431,830.73	\$ 418,450.66	\$ 356,015.19	\$ 233,418.98	\$ 212,853.36
% of Net Regular Debt to Levy (cap of 4% per Policy)	1.12%	1.66%	1.55%	1.27%	0.80%	0.71%
Net Excludable Debt	\$ 2,947,347.96	\$ 2,716,968.45	\$ 2,693,718.60	\$ 2,696,088.53	\$ 2,336,360.12	\$ 2,177,554.57
% of Excludable Debt to Total Levy (cap of 11% per Policy)	10.51%	9.43%	9.06%	8.78%	7.45%	6.76%
% of Aggregate Debt Service Costs to Total Levy (cap of 14% per Policy)	11.51%	10.93%	10.47%	9.94%	8.20%	7.42%

Five Year Forecast:

Revenues vs. Expenditures

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>
Grand Total Revenues	\$43,061,826.01	\$44,882,583.42	\$43,610,188.30	\$43,835,698.54	\$45,105,080.54	\$45,546,227.14	\$46,350,617.87
Grand Total Expenditures	\$43,061,826.01	\$44,882,583.46	\$43,508,576.74	\$44,296,845.13	\$45,698,240.09	\$46,127,311.83	\$47,069,147.32
Total Surplus/(Shortfall)	0	(0)	101,612	(461,147)	(593,160)	(581,085)	(718,529)

School Five Staffing Plan

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School Five Year Staffing Plan Expenditures

Expenditures

	FY2020 Actual Per Recap	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected
EDUCATION						
Lunenburg Public Schools	20,795,863.23	21,652,089.81	23,026,750.81	24,467,940.15	25,872,098.90	27,122,936.45
Curriculum Update - Non-Recurring	17,686.00	17,686.00	17,686.00	17,686.00	17,686.00	17,686.00
Monty Tech Assessment	783,987.00	796,909.83	816,832.58	837,253.39	858,184.72	879,639.34
Total Education	21,597,536.23	22,466,685.64	23,861,269.39	25,322,879.54	26,747,969.62	28,020,261.79

The Proposed Five Year Staffing Plan for the School includes an additional \$336,330 in FY21, an additional \$1,178,097 in FY22, an additional \$2,073,070 in FY23, an additional \$2,917,357 in FY24, and an additional \$3,594,326 in FY25. This carries forward all associated costs for any new positions in the five year staffing plan, including health insurance costs. This scenario is based on these amounts being on top of the projected 2.5% each year of the forecast.

Five Year Forecast:

Effect on Revenues vs. Expenditures

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>
Grand Total Revenues	\$43,061,826.01	\$44,882,583.42	\$43,610,188.30	\$43,835,698.54	\$45,105,080.54	\$45,546,227.14	\$46,350,617.87
Grand Total Expenditures	\$43,061,826.01	\$44,882,583.46	\$43,844,906.74	\$45,474,942.13	\$47,771,310.09	\$49,044,668.83	\$50,663,473.32
Total Surplus/(Shortfall)	0	(0)	(234,718)	(1,639,244)	(2,666,230)	(3,498,442)	(4,312,855)

Forecast Conclusions

- Conclusions:
 - Indicates deficits in Fiscal Years 22-25. This is largely due to the fact that the Revenue projections for FY22-FY25 does not assume the use of Free Cash but has expenditures on the Expenditure projections that are annually offset by the use of Free Cash.
 - Continue to review a long term staffing plan for the School to achieve their intended results.

Forecast Next Steps

- Continued discussion of Assumptions, if needed
- Firm up Revenue Estimates for FY21 when receive the Governor's FY21 Proposed Budget
- Receive Worcester County Retirement Assessment this week and insurance renewals end of January/beginning of February & other Assessments
- Currently reviewing FY21 Budget submissions
 - Town Manager's Recommendation 02/13/20
 - Target & Above Target
 - Target Budget leaves a surplus of \$150,000 in Free Cash that could go towards next year's Free Cash balance or Snow and Ice Deficit if cannot be covered by current year's end of year surpluses
 - BOS & FinCom Review, February – March 2020
 - Annual Town Meeting- May 2, 2020